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State Dept. review completed

TOP SECRET

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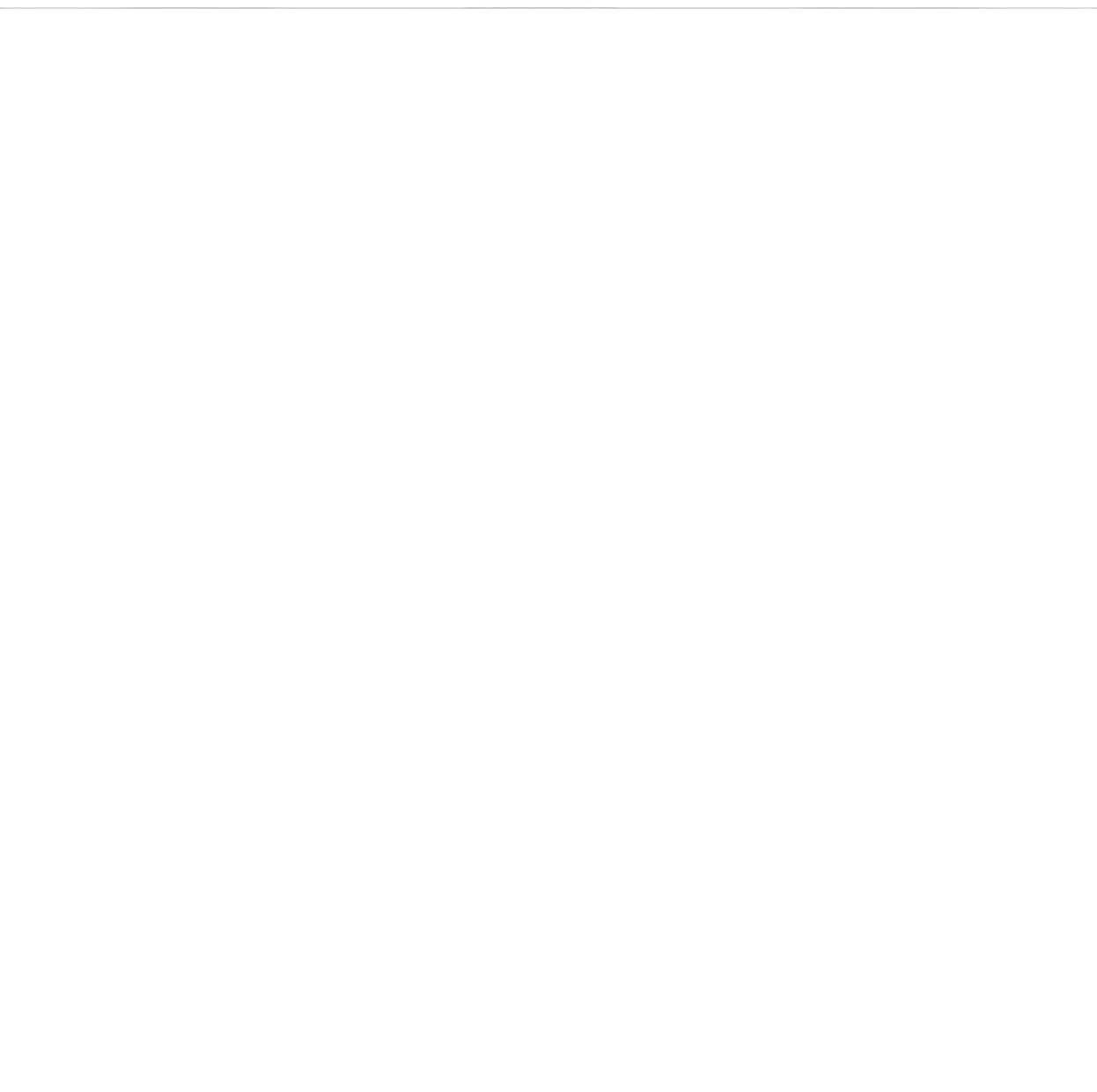
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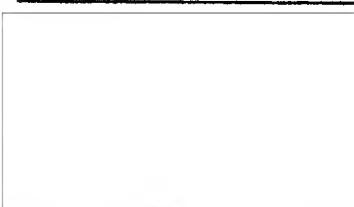
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GENERAL

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2. Soviet diplomat says USSR ready to accept free German elections:



In an after-dinner conversation which took place on 22 June in the presence of a number of French guests, Soviet ambassador

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Vinogradov in Paris told Ambassador Dillon that the USSR was now prepared to accept free all-German elections subject to strict international control, provided only that foreign troops were withdrawn prior to the vote.

Vinogradov also said that it would be very difficult to reach any agreement on disarmament controls, since any really effective inspection might involve an unacceptable invasion of national "privacy rights." He said that, as an alternative, an agreement that no nation would make use of nuclear weapons would be satisfactory to the Soviet Union, which would be willing on this basis to move ahead with conventional disarmament along the lines of the 10 May Soviet proposal.

Comment: Vinogradov's statement may indicate that the USSR has decided to take the calculated risk of making a proposal for free all-German elections, attaching conditions likely to cause the West to reject it. The reference to troop withdrawal as the only condition for free elections does not mean that the USSR has abandoned its insistence on a neutralized Germany, which still remains a Soviet prerequisite to unification. The ambassador's statement may be intended only to test Western reaction to a package offer of neutrality and free elections and to encourage the hopes of neutralists that such a proposal will be made.

Should such a package offer actually be made, West German public opinion would very likely support the Adenauer government's opposition to this unity formula. Few West Germans would advocate the withdrawal of Allied forces from their country before a German army is in being. In the last two months press opinion reflects growing public awareness that neutrality is too high a price for German unity under present conditions.

Vinogradov's statement, as reported, reversed the sequence of disarmament measures as outlined by the 10 May Soviet proposal, which calls for measures designed to prohibit nuclear weapons to follow an agreement on armed force strength and conventional weapons. His remarks on controls again reflect the USSR's unwillingness to accept a far-reaching system such as that advocated by the West.

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SOUTHEAST ASIA

4. Burmese leader fears economic pressure may lead to dependence on Sino-Soviet bloc:



Acting Foreign Minister Kyaw Nyein told Senator Dirksen on 22 June that Burma's wooing of Communist China with barter

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agreements, cultural exchanges and requests for technical assistance was "leading to consequences which may be fatal." He said he feared Burma might be "completely sucked into the Soviet Orbit" within five years.

The fundamental cause of Burma's increasing dependence on the Communist world, he said, was its extensive loss of foreign exchange over the past two years as a result of lowered rice prices and loss of rice markets. The minister suggested that the United States could help Burma by locating markets for Burmese rice and withholding American rice from Asian markets.

Comment: Burma's rice export problem is serious, and by contracting for nearly a third of its surplus, the Orbit has obtained important leverage over its internal economy.

Kyaw Nyein probably exaggerated the gravity of the situation in order to prepare the way for Premier Nu's anticipated request for assistance when he visits Washington next week.

NEAR EAST - AFRICA

5. Cyprus government planning for "full state of emergency":

The Cyprus government believes that order can be restored on the island only by immediate forceful action, according to the American consul in Nicosia. It has therefore recommended to London that a full state of emergency be declared and that terrorism be halted by whatever steps are necessary.

The local population is increasingly apprehensive that the violence will spread, and the government believes that firm action would be welcomed by "a large number" of Cypriots. There are also increasing possibilities of serious trouble between the Greek and Turkish Cypriots.

The Cyprus government has indirectly approached Archbishop Makarios, leader of the movement seeking union of Cyprus with Greece, who is reported to have said he would support a liberal constitutional proposal with recognition of the right to eventual self-determination for Cyprus.

Comment: Acceptance by Makarios of such a constitutional proposal might be a step toward settlement of the Cyprus problem. The situation has deteriorated so far, however, that Greek public and official opinion, as well as Greek Cypriot opinion, may tolerate no less than immediate self-determination, which would result in union with Greece.

Continuation of the Cyprus issue at its present peak seriously damages Greek-British relations, creates strong Greek-Turkish antagonism, impairs the effectiveness of the Balkan pact, and is an irritant in Greek-American relations.

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LATIN AMERICA

6. Argentine junta reported seeking to conceal its power.

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President Peron is still acting under the "guidance" of a military junta, although the army, in an effort to placate both military and civilian factions, is making every effort to avoid official disclosure that a junta is in power.

The junta is reported to include Minister of the Army Lucero, Army Commander José Sosa Molina, Minister of National Defense Humberto Sosa Molina, Army Chief of Staff Carlos Wirth, and six others unnamed.

The junta is said to fear that the immediate removal of Peron might lead to civil war, and to have instructed him to govern his words and actions in a manner to avoid disturbances. Specifically, Peron has been told to order the General Confederation of Labor to drop the church fight and limit its activities to labor matters.

Peron

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has lost prestige and followers but is regarded as a more able political strategist than Lucero.

Comment: The previously reported junta is evidently being enlarged in order to include the most powerful military commanders and exert better control over a still tense situation. In addition to its difficulties in Buenos Aires, the junta still faces the problem of a settlement with the rebel naval forces.

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